

The Honorable Dick Armey  
Majority Leader  
U. S. House of Representatives  
Washington, DC 20515

Dear Congressman Armey:

This is in response to a joint letter dated September 22, 1999, from Chairmen Thompson, Domenici, Burton, Kasich, and you, requesting an update of the most serious management challenges facing the Department of Energy (Department). Your request was for updated information on reports the Office of Inspector General (OIG) has issued regarding the management challenges, status of open recommendations, positive progress the Department has made, and program areas not achieving intended results.

As noted in your letter, at the request of Congress, the OIG has provided information on agency challenges for the past two years. Based on our analysis, we believe the most serious challenges facing the Department include:

- security issues,
- project management,
- contract management,
- nuclear waste storage and disposal,
- safety and health,
- environmental compliance,
- materials inventory,
- infrastructure, and
- property controls.

This list is roughly parallel to the Department's reporting under the requirements of the Federal Managers' Financial Integrity Act (FMFIA). The OIG has a significant role in the FMFIA process at the Department of Energy.

Enclosed is an updated listing, current through the end of Fiscal Year 1999, of significant reports issued in these areas. The listing also provides the status of open recommendations as of March 31, 1999, the most current status available to us from the Chief Financial Officer.

On August 17, 1999, Chairman Thompson asked that Secretary Richardson provide the Senate Governmental Affairs Committee with an analysis of the status of open recommendations from this office and the U. S. General Accounting Office. The Department's response may be of interest to you.

## Areas of Progress

Regarding positive progress, we reported in July of this year (*The U.S. Department of Energy's Audit Follow-up Process*, DOE/IG-0447) that the Department had made improvements in its management of personal property. As discussed in detail in our report, the Department deserves credit for addressing many long-standing issues in this area. While we are pleased with this progress, we have determined that property controls should remain on our list of challenges until we have an opportunity to evaluate the area more fully as part of our annual review of the Department's Accountability Report.

We are also aware that the Department has made significant progress in assuring that its more than 400 mission-critical information systems have been upgraded or replaced, tested, and independently validated as Year 2000 compliant. Between April 1998 and January 1999, the OIG issued a series of advisory memoranda on different aspects of the Year 2000 problem. In each case, the Department responded quickly and decisively to address the issues we raised. Obviously, the ultimate effectiveness of the Department's Y2K program and, specifically, its actions regarding our memorandum reports cannot be fully assessed until the new year arrives.

## Needed Improvements

We have designated three of the management challenges – security, project management, and contract management – as special emphasis areas for the coming year. In our judgment, the Department's recent performance in these areas is of particular concern. To the extent that resources allow, these areas will receive increased audit attention from the Office of Inspector General in Fiscal Year 2000.

The Department spends about \$1 billion per year for physical and personnel security. The OIG has issued a number of reports over the past several years demonstrating significant inefficiencies in the way these funds are spent. Furthermore, recent reviews by the OIG, Congressional oversight committees, and others have raised concern about the Department's overall effectiveness in protecting information relating to nuclear weapons. For example, in an analysis requested by Chairman Thompson, we reviewed the Department's procedures for recommending approval for export control licenses, dual use, and munitions items. In that report, we highlighted weaknesses concerning so-called "deemed exports". Further, the recent creation of the National Nuclear Security Administration has also called attention to these concerns.

Similarly, the Department has experienced difficulties in managing some of its major projects. Cost overruns, schedule delays, and other management problems have plagued Department projects, most recently the \$1 billion National Ignition Facility. Since the early 1990s, the Office of Inspector General has issued many reports critical of the Department's planning, justification, and management of its major projects. The Deputy Secretary's establishment of a "watch list" for certain high-visibility, high-risk projects indicates that the Department views project management improvements as a priority.

The third emphasis area for the OIG is contract management. Effective methods for holding Department contractors accountable are critically important. Of the Department's total budget of about \$17 billion, over \$13 billion is spent by its major operating contractors. The effectiveness of the Department's "Contract Reform" efforts of the past several years has been called into question. We are particularly concerned with the effort to shift risk, responsibility, and accountability to major contractors in exchange for higher fees.

Within the confines of its limited resources, the Office of Inspector General will continue to plan its work focusing on the management challenge areas previously identified. The Department's missions are diverse, widely dispersed, and highly complex. Thus, our task is quite challenging. Our goal is to spend the most significant portion of our available time assessing and recommending improvements to the emphasis areas described above. These areas, in my view, represent the greatest risks facing the Department today.

Please do not hesitate to contact me if I may be of any further assistance.

Sincerely,

Gregory H. Friedman  
Inspector General

Enclosures